**Industrial Energy Consumers of America**
*The Voice of the Industrial Energy Consumers*

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October 24, 2012

The Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Max Baucus
Chairman
Committee on Finance
U.S. Senate
Washington, DC 20510

The Honorable Sander M. Levin
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
U.S. Senate
Washington, DC 20510

***RE: The Oil and Gas Intangible Drilling Costs (IDCs) are Not a Subsidy – Congress Should Carefully Weigh the Implications Before Considering Any Changes and Only Within the Broader Framework of Tax Reform***

Dear Chairman Camp, Ranking Member Levin, Chairman Baucus, and Ranking Member Hatch:

The Industrial Energy Consumers of America (IECA) represents some of the largest industrial consumers of natural gas as a fuel and feedstock, and natural gas-fired electricity in the country. In other words, our global competitiveness is dependent upon the price of energy. It is for this reason that we raise deep reservations about the potential for Congress to modify the intangible drilling costs (IDCs), an ordinary and necessary business expense of the oil and gas industry. Modification should only be addressed within the context of the broader framework of tax reform and a lower globally competitive corporate tax rate.

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $710 billion in annual sales and with more than 930,000 employees worldwide. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets.

As Congress debates the future of corporate tax reform, it must carefully evaluate the aspects of the tax code that impair or improve the competitiveness of American companies. As we see it, the intangible drilling costs tax provision represent an important form of capital formation for the oil and gas industry. The IDC is not a subsidy as some have described it. It is the equivalent of cost deductions taken by the manufacturing sector that they deduct against revenue. The IDC is a tax deduction that has been in place since 1913 and for many companies is critical to their competitiveness and ability to invest new capital. IECA is concerned that modification of the IDC deduction could result in less capital spending, lower production and higher prices for natural gas, natural-gas-fired power generation and oil.

Some claim that repealing the IDC deduction would save the government $12.4 billion per year. If natural gas prices rise even just the small amount of $.50 cents, consumers will pay that much in higher bills. We urge the Congress to consider the very important trade-offs.

Historic industry data is very clear that independent producers routinely invest more than 100 percent of cash flow received into drilling more wells. Integrated producers are not far behind this number. Without the IDC, estimates by our natural gas suppliers indicate that their exploration and production budgets would fall 15 to 20 percent in the first year.

The health of the oil and gas industry and its continued investment in drilling wells and increasing production has been the underpinning of the U.S. manufacturing sector beginning to reestablish its global competitiveness. Dry natural gas production has increased by 7.82% percent since 2010 and prices have been low as compared to recent history. All consumers have saved tens of billions each year on their energy bills.

The resulting long-term potential abundance of natural gas, and the promise of stable and relatively low prices as compared to other countries, has resulted in about $80 billion in domestic capital projects announced by the manufacturing sector that will come on stream over the next one to three years. These initial projects will increase natural gas demand by about 6 bcfd, a 9.0% percent increase over 2011 industrial demand. For absolute clarity, these projects would not exist, and may not continue to proceed, unless there is sustained confidence in the long-term supply of natural gas at globally advantaged prices.

The $80 billion in new capital projects is very significant given that total capital spending by the manufacturing sector in 2011 was $192 billion. And, this is just the first wave of new investment. Almost all of these projects will increase production of “commodity” energy intensive manufacturing products such as chemicals, plastics, fertilizer, steel, aluminum and glass that are the building block of raw material products from which all retail products are made. As this capacity comes on stream, it is believed that their customers will also increase capital investments.

Energy intensive natural gas and electricity dependent industries are listed below. These are price and trade sensitive industries whereby relatively small changes to the price of energy can have significant impacts.

Energy as a % of total cost:

- Commodity chemicals and plastics: 80% (feedstock)
- Nitrogen fertilizer: 80% (feedstock)
- Aluminum: 30-35%
- Recycled steel: 25%
- Integrated steel: 85% (energy and raw materials)
- Plastics: 80% (feedstock)
- Chemicals: varies 15-20% (fuel only)
- Paper: 10-20%
- Glass: 20-25%
- Food processing: 30%
- Cement: 25-35%
- Refining: 15-20% (fuel only)

A vibrant oil and gas industry and its investment in domestic production leverages economic growth for the entire economy. Economic health and growth should be the driving forces behind any corporate tax reform effort. Moreover, this particular issue must also be considered within the context of comprehensive energy policy.

Sincerely,

Paul N. Cicio
President

cc: The Honorable Fred Upton
The Honorable Henry A. Waxman
The Honorable Doc Hastings
The Honorable Edward J. Markey
The Honorable Jeff Bingaman
The Honorable Lisa Murkowski
The Honorable Steven Chu
The Honorable Ken Salazar
U.S. Senate
U.S. House of Representatives